International Trade

Temporary nature of textile tariffs must be enforced; emphasizing customs control

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Mexico imposes temporary tariffs of 15 to 35% on 155 tariff items in the textile and clothing industry. It also modifies the Immex Decree to limit access to this program in these sectors. Finally, it establishes a global rate of 19% on products imported through digital platforms from countries without a free trade agreement, including China.

Key Points

- Tariffs on textile products can support an industry that has lost competitiveness, partly due to the entry of illegal goods but also due to idiosyncratic factors.
- However, they must be strictly temporary to incentivize the industry to improve its competitiveness. The established period (until April 2026) seems adequate and should not be extended.
- It is worrying that the tariffs have been imposed without documenting unfair practices, although we do not rule out that they exist. Justifying their imposition based on a trade deficit is a mercantilist argument, similar to those used by President Trump to impose tariffs on several countries.
- Tariffs reduce competitiveness by preventing capital from flowing to more efficient sectors and increasing consumer costs.
- Public policy efforts should focus on strengthening customs control to prevent the entry of illegitimate merchandise into the country and, critically, its possible export to the US, which could risk the trade relationship and the T-MEC review process.

Summary

- The decree modifies Mexico's Import and Export General Law, applying 35% tariffs to import goods from 138 tariff fractions of the clothing industry and 15% on 17 of the textile industry.
- The Decree for the Promotion of the Manufacturing, Maquiladora, and Export Services Industry (Immex Decree[1]) is modified, eliminating 302 tariff fractions corresponding to goods from the former industries and restricting temporary imports under the program.

[1] The IMMEX Program is an instrument that allows the temporary importation of goods necessary for use in an industrial or service process intended for the production, transformation, or repair of foreign merchandise temporarily imported for export or for the provision of export services without paying the general import tax, the value-added tax, and, where applicable, compensatory fees. See the official website.

- The Textile industry's GDP[2] has fallen at an average annual rate of 4.2% since 2019, and for 3Q24, it is 19.1% below its pre-pandemic level. In this same period, imports of the considered tariff fractions[3] increased 13% in nominal terms.
- Additionally, the modification to the General Rules of Foreign Trade imposes a single rate of 19% on goods that enter the country through courier companies from countries without an international treaty; T-MEC countries can reduce it to 17% only if the value of the merchandise is between 50 and 117 US dollars. This measure is related to products sold primarily through digital platforms and retail stores.

New tariffs and modifications to the IMMEX Program

On December 19, 2024, the Mexican government issued through the Official Federal Gazette (DOF) the decree modifying the tariff of the General Import and Export Tax Law and the Decree for the Promotion of the Manufacturing, Maquiladora and Export Services Industry (IMMEX program). The decree establishes temporary tariffs[4] of 35% on the import of goods belonging to 138 tariff fractions related to the Clothing industry and 15% on 17 tariff fractions related to the Textile industry.[5] The tariffs apply to imports from countries with which Mexico does not have a free trade agreement (FTA), among which China is the largest supplier of these goods.

The decree's main argument is that these tariffs are necessary to "provide market conditions to the sectors of the national textile and clothing industries that face disadvantageous situations in international trade and to promote the development of the national industry."

Additionally, the decree notes that, during 2023 and until September 2024, the faculties of the Immex program (sections I, II, and III of Art. 4 of the Immex Decree) were abused by not reexporting the imported goods under the program to the foreign market to be transformed[6]. The decree argues that this trend caused damage to the competitiveness of the national industry. Therefore, 302 tariff fractions of finished clothing goods classified in chapters 61, 62, 63, and subheadings 9404.40 and 9404.90 of the Textile industry are suspended from Immex.

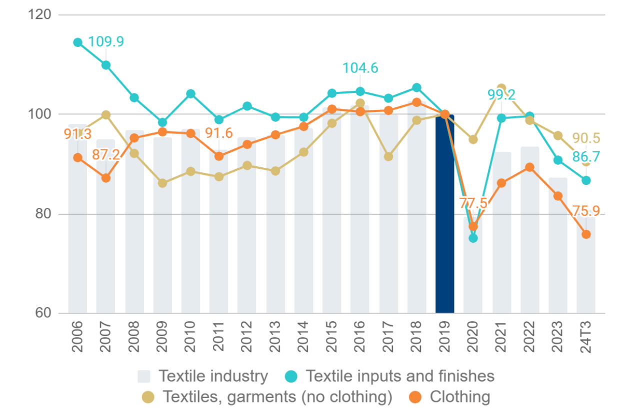
Subsequently, on December 31, 2024, the modification of the Foreign Trade General Rules was published in the DOF to "combat abusive practices and implement simplification and collection actions." The new rules impose a single rate of 19% on merchandise entering the country through courier companies from countries without a free trade agreement; the T-MEC countries can reduce this tax rate to 17% only if the merchandise's declared value is between 50 and 117 US dollars. This measure concerns the sale of merchandise primarily on digital platforms and in retail stores.

[2] Textile Industry: subsectors 313 - 315 of Manufacturing (NAICS Classification)
[3] Tariff fractions (HS 8 digits) are aggregated at the heading level (HS 4 digits, the more detailed breakdown available in INEGI) to approximate the volume of imports. See Table 2 in Annex.
[4] Until April 23, 2026
[5] Of the total of 155 fractions considered, all except one belong to Section XI Textile Materials and their manufacturers, covering chapters 52, 55, 58, 60, 61, 62, 63, and 64 of the Harmonised System (HS). Fraction 9404.40.01 Foot covers, quilts, duvets, and covers belong to Section XX Miscellaneous goods Chapter 94 Furniture; medical-surgical furniture; bedding articles and the like. See the Annex for more details.
[6] The decree points out the differences between total imports and exports of subheadings 9404.40 and 9404.90 (Clothing) and 6117.90, 6217.90, 6302.91, 6302.93, and 6302.99 (Cuts of fabric for clothing) leading to relevant trade deficits for Mexico.

Mexico's textile output is declining, while imports are on the rise

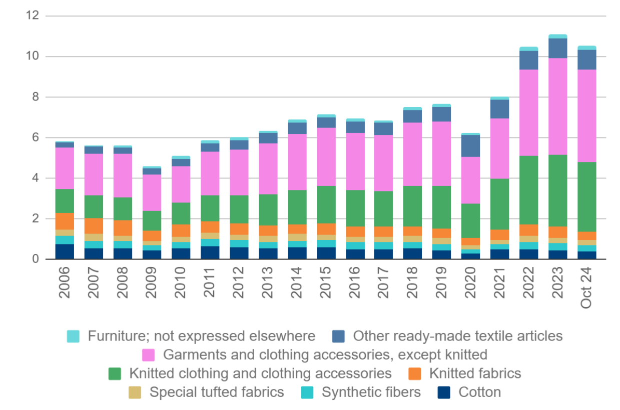
The Textile industry's GDP[7] accounts for 0.4% of the National GDP and 1.8% of the Manufacturing GDP. By the end of 3Q24, the GDP of this industry reached 95.4 billion constant pesos, 19.1% below the pre-pandemic level, with an average annual contraction rate of 4.2% since 2019. Apparel manufacturing (subsector 315 according to NAICS) is the leading subsector of this industry, with 55.3% of the product, followed by Textile and Finished Inputs with 28%. Figure 1 below shows that these two subsectors are the most lagging in terms of domestic production.

Figure 1. **TEXTILE INDUSTRY GDP (INDEX 2019 = 100)**



Source: BBVA Research with data from Inegi. Note: Textile Industry: subsectors 313-315 of Manufacturing (NAICS Classification)

Figure 2. **MEXICAN TEXTILE IMPORTS* (BILLION CURRENT USD)**



Source: BBVA Research with data from Inegi. *Note: According to the HS classification, tariff fractions were aggregated to match their HS2 code.

The 155 tariff fractions considered in the decree cover 50 unique HS headings[8], of which we can identify the monetary value of imports for 37 headings (74%) using data from "Imports according to main products of the Harmonized System of Designation and Coding of Merchandise" of Inegi. Based on this analysis, Mexican imports of these goods have grown at an average rate of 3.3% annually since 2006 in current terms, reaching 10.52 billion dollars by October 2024.[9]

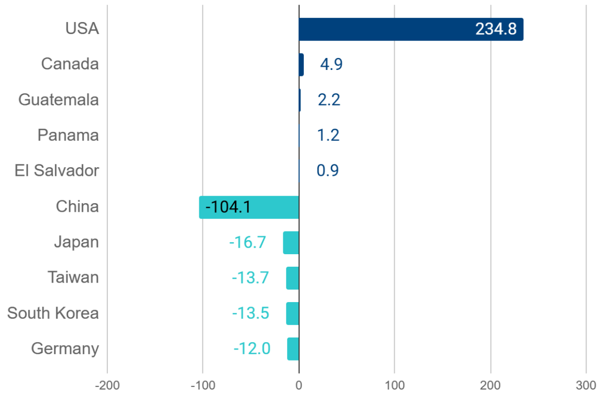
Mexico experiences a textile trade deficit, primarily with China

By the end of 2023, Mexico's trade deficit in goods trade is with Asian countries, mainly with China, followed by Japan, Taiwan, and South Korea. On the other hand, Mexico's trade surplus is primarily with countries on the American continent with a strong bias towards the US, totaling more than $234 billion in surplus with this country, representing more than double the deficit with China (104 billion dollars in 2023).[10]

[7] Textile Industry: Subsectors 313 - 315 of Manufacturing (NAICS Classification)
[8] Tariff fractions (HS 8 digits) are aggregated at the heading level (HS 4, the largest breakdown available in INEGI) to approximate the volume of imports. See Table 2 in the Annex.
[9] We have information on 74% of the headings considered, which underestimates the total volume of Mexico's goods imports.
[10] The breakdown of trade amounts by country HS2 comes from the Mexican Merchandise Trade Balance (BCMM) through the Data México portal; as of the publication date, it has annual data for 2023.

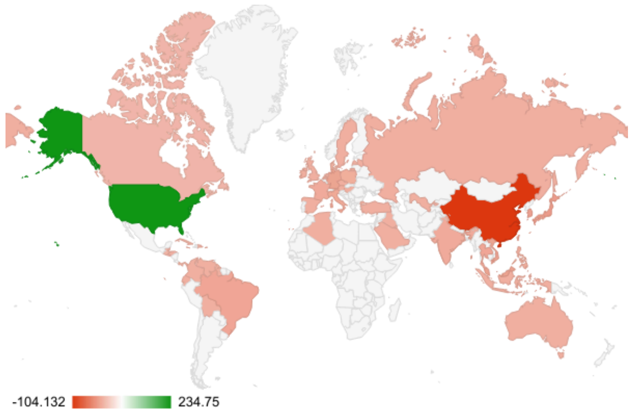
While there are concerns in the US about Mexico serving as a gateway for merchandise from China to enter the US market, the trade data doesn't reflect this hypothesis.

Figure 3. **MEXICO TRADE BALANCE***
(BILLION USD, 2023)



Source: BBVA Research with data from Inegi. *Note: Top 5 countries with the largest trade surplus/deficit in 2023

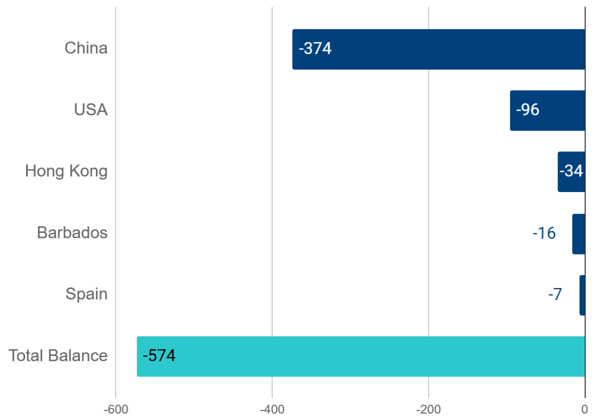
Figure 4. **MEXICO TRADE BALANCE***
(BILLION USD, 2023)



Source: BBVA Research with data from Inegi. * Selection of 20 countries with the largest deficit/surplus

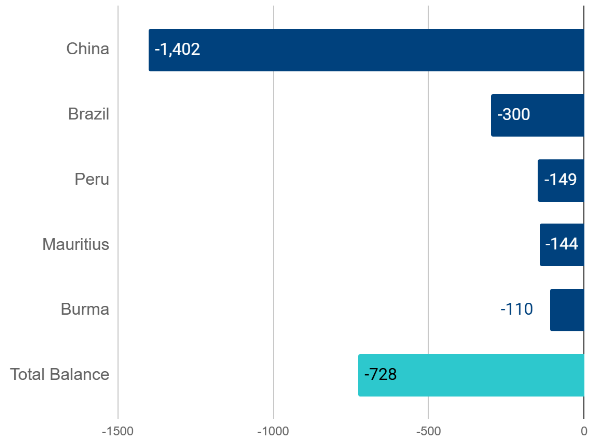
To review Mexico's trade situation in the tariffed fractions, we analyzed the trade balance of chapters 60, 61, 62, and 63 (corresponding to 91% of the taxed fractions) to identify the trading partners with which Mexico runs a trade deficit and would be subject to tariff expenses.

Figure 5. **TRADE BALANCE CHAP. 60***
(BILLIONS USD, 2023)



Source: BBVA Research with data from Inegi. *Chapter 60 Knitted Fabrics. Harmonized System

Figure 6. **TRADE BALANCE CHAP. 61***
(BILLIONS USD, 2023)

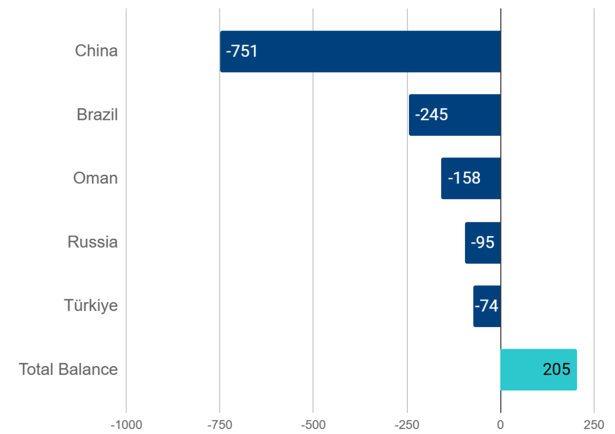


Source: BBVA Research with data from Inegi. *Chapter 61 Clothing and accessories (accessories), knitted or crocheted. Harmonized System

In the case of Knitted Fabrics (chapter 60), Mexico ran a trade deficit of 574 billion dollars, mainly with China; in second place was the United States, as shown in Chart 5 below. In the case of Knitted Garments and Accessories, China again appears as the leading supplier with a deficit that reached 1.4 trillion dollars in 2023. Brazil and Peru are in second and third place (See Chart 6).

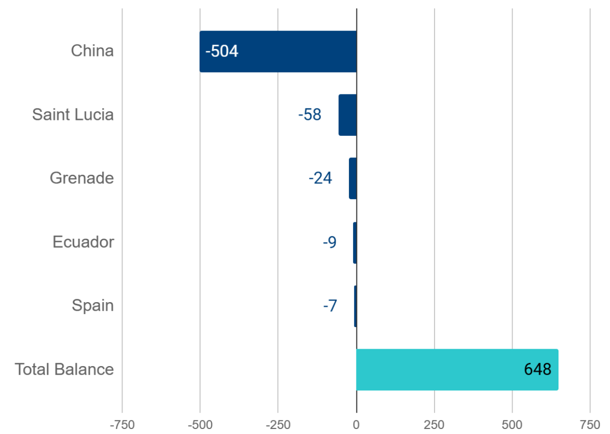
In the case of Apparel and Clothing Accessories (except knitwear) and the rest of the Made Textile Articles, Mexico closed 2023 with trade surpluses of 205 and 648 billion dollars, respectively. However, Mexico holds a trade deficit again with China and other trading partners such as Oman, Russia, Turkey, and Spain, which may reduce sales to Mexico due to the new tariffs.

Figure 7. **TRADE BALANCE CHAP. 62*** (BILLIONS USD, 2023)



Source: BBVA Research with data from Inegi. *Chapter 62: Clothing and accessories (accessories), except knitwear

Figure 8. **TRADE BALANCE CHAP. 63*** (BILLIONS USD, 2023)



Source: BBVA Research with data from Inegi. *Chapter 63: Other manufactured textile articles; games; clothing and rags.

To identify the weight of imports in both textile consumption in Mexico and in the productive structure of the industries involved in the decree, we use the Input-Output Table (IO) at 2018 constant prices and associate the tariff fractions (classified in the Harmonized System) with the industrial classes available in the MIP classified in NAICS (6 digits). This analysis allows us to estimate the apparent consumption (AC)[11] by industry and how much of this consumption is fulfilled with imports. We can also see what percentage of intermediate demand[12] is satisfied by imports. The "Serial production of other outerwear" industry leads the AC with 77.2 billion pesos. Of this total domestic consumption, 29.2% is satisfied via imports. Additionally, the national production requires 39.8% of imported inputs.

Among the industries with the most remarkable dependence on imports, we find the Mass Production of Underwear and Sleepwear with an AC of 18.9 billion pesos, of which 81% comes from imports. At the same time, the scarce national production satisfies 77% of its intermediate demand for imported goods. This textile industry would be most sensitive to higher import tariffs. Textile Product Finishing follows a similar trend, with a proportion of imports respective to the AC of 74.4% and a demand for imported intermediate inputs of 57%.

[11] Apparent Consumption (AC) = Domestic Production + Imports - Exports

[12] Intermediate demand refers to the inputs necessary for an industry's total production. This concept differs from total imports, which can be employed for final or intermediate demand.

Tabla 1. **DOMESTIC APPARENT CONSUMPTION, INTERMEDIATE DEMAND, AND SHARE OF IMPORTS** (MILLION PESOS AND PERCENTAGE)

Industry group NAICS 6 digits	Domestic Apparent Consumption (AC) Millions of MXN	% Imports / AC	% Imports / Intermediate demand
315229 - Mass production of other outer clothing of textile materials	$ 77,241.52	29.2%	39.8%
313210 - Manufacture of wide weft woven fabrics	$ 58,197.94	40.7%	32.5%
315192 - Manufacture of knitted outerwear	$ 33,507.78	58.1%	32.6%
313320 - Manufacture of coated fabrics	$ 26,457.50	74.8%	54.0%
313310 - Finishing of textile products	$ 23,184.49	74.4%	57.0%
313230 - Manufacture of nonwoven fabrics (compressed)	$ 22,465.93	59.5%	47.1%
313112 - Preparation and spinning of natural soft fibers	$ 20,392.94	61.0%	22.3%
315221 - Mass production of underwear and nightwear	$ 18,988.72	81.0%	77.0%
314120 - Making curtains, whites and similar	$ 17,198.73	36.3%	38.8%
315223 - Mass production of uniforms	$ 15,489.28	17.9%	48.4%
313240 - Manufacture of knitted fabrics	$ 14,817.39	52.4%	37.3%
315222 - Mass production of shirts	$ 12,789.43	75.5%	39.2%
314999 - Manufacture of flags and other textile products not elsewhere classified	$ 11,763.99	92.7%	52.7%
313220 - Manufacture of narrow weft and trimming fabrics	$ 9,487.45	70.4%	47.0%
313113 - Manufacture of threads for sewing and embroidery	$ 8,836.58	26.8%	27.5%
314991 - Making, embroidering and unraveling of textile products	$ 7,507.61	0.0%	23.2%
315110 - Manufacture of knitted socks and stockings	$ 6,655.00	35.4%	31.6%
315999 - Manufacture of other accessories and clothing not elsewhere classified	$ 6,585.72	80.9%	51.6%
314912 - Manufacture of coated textile products and substitute materials	$ 5,947.80	10.6%	35.1%
315225 - Manufacture of custom-made clothing	$ 5,911.29	0.1%	21.2%
314911 - Making of sacks	$ 5,864.54	18.2%	41.8%
314110 - Manufacture of carpets and rugs	$ 5,779.86	73.9%	25.3%
314992 - Manufacture of nets and other rope products	$ 5,466.11	46.5%	54.1%
315191 - Manufacture of knitted underwear	$ 4,801.43	15.7%	40.1%
313111 - Preparation and spinning of natural hard fibers	$ 4,105.39	16.2%	30.4%
314993 - Manufacture of recycled textile products	$ 3,649.69	49.7%	27.0%
315991 - Manufacture of hats and caps	$ 3,069.73	66.7%	45.0%
315224 - Mass production of costumes and traditional costumes	$ 2,346.07	0.0%	29.3%
315210 - Manufacture of clothing of leather, fur and substitute materials	$ 457.86	60.2%	21.8%

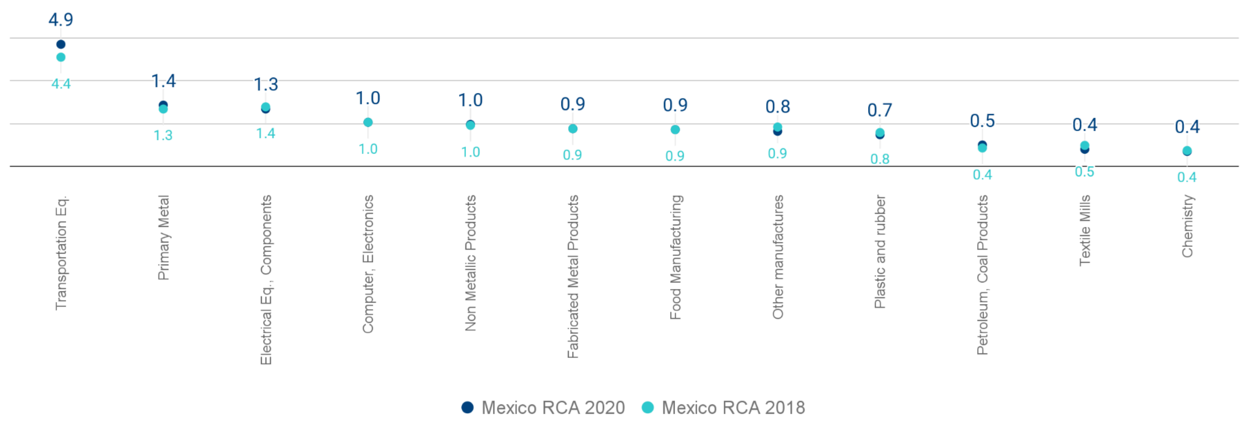
Source: BBVA Research with data from Inegi.

On the other side of the spectrum, the Mass Production of Costumes and Typical Clothing does not require imports for its CNA but requires 29.3% of imported inputs. The Textile Product Manufacturing, Embroidery and Unraveling, and Custom-Made Garment Manufacturing industries follow this trend with import levels to CNA close to 0% but with imported input requirements of 23.2% and 21.2%, respectively.

Assessment: Protectionist measures to enhance the textile industry's competitiveness can be beneficial, provided they are temporary and accompanied by increased productivity

Concerning Revealed Comparative Advantage (RCA)[13]The Mexican textile industry is not considered internationally competitive and has fallen even further between 2018 and 2020. It ranks far from the most competitive industries, such as Transportation Equipment, Primary Metals, and Electrical Equipment.

Figure 9. **REVEALED COMPARATIVE ADVANTAGE (RCA)**



Source: BBVA Research with OECD data. An industry with an RCA greater than one is considered globally competitive.

In this sense, tariff policies that do not directly result from a resolution to unfair international trade practices[14] have a mainly protectionist approach, contrary to exploiting the potential gains of comparative advantage. We do not rule out that China may be engaging in unfair practices, but these should be proven and used as an argument to impose tariffs.[15]

The current trade deficit with China does not represent even half of the trade surplus that Mexico currently has with the US. Using this deficit to argue against China is equivalent to the mercantilist arguments used to impose protectionist measures in other countries. In no case is any unfair trade practice confirmed by applying protectionist measures to its national industry. A trade deficit is not proof of unfair practices. A conclusion of this type based solely on the trade balance comes from a mercantilist framework, which is not based on the industry's competitiveness.

[13] This indicator (also known as the Balassa index) compares the proportion of a country's exports in a specific industry to the weight of that industry in global exports. An indicator greater than one shows that the country exports comparatively more than the worldwide average, understanding this as an advantage revealed by the international market.

[14] Las prácticas desleales más comunes son el *dumping* y los subsidios otorgados por parte de un gobierno para impulsar su industria de exportación;

[15] This is a general principle of international trade where an open economy should specialize (concentrate) in producing the most competitive goods; this comparative advantage expands consumption possibilities, increasing the nation's well-being. See: [Comparative Advantage and Trade Performance](), Kowalski, P. (2011)

Although the increase in tariffs established in the decrees is said to be consistent with the tariffs consolidated by Mexico in the World Trade Organization and maintains that it seeks to promote the national industry and strengthen the internal market, this increase in tariffs:

- does not enhance the opportunities of the sectors in which Mexico has a Revealed Comparative Advantage. Maintaining tariffs without these being the result of an analysis of unfair practices can result in capital flowing to less competitive sectors of the economy, affecting its potential growth;
- The executive order does not consider the sufficiency of the products in national production or of commercial partners to supply the requirements of the industry and consumers;
- It negatively impacts consumers by increasing the final price of these products, making supply difficult and increasing the cost of inputs integrated into the different production chains, making it more difficult for consumers to organize and have a unified voice, which is what producers who benefit from protectionist measures do. But aggregate well-being decreases with protectionist policies;
- Uncertainty regarding trade policy could impact investment decisions.
- The executive order is not complemented by an increase in investigations and determinations on unfair international trade practices, nor are compensatory quotas being imposed even when the existence of an unfair trade practice is determined, nor by the effective application of sectoral or promotion programs;
- Imposing tariffs and arguing that this will promote the national industry can lead to losing competitiveness. On the other hand, it harms national industries that require these imported goods as inputs, making their production more expensive and decreasing their competitiveness And
- A better policy, especially in the textile industry, is to strengthen customs processes to combat imports of goods that do not respect intellectual property (counterfeit) or are stolen.

Mexico should ensure that the T-MEC's rules of origin are always complied with but not adopt protectionist measures since this would reduce North America's competitiveness.

Annex

Table 1: Number of modified tariff fractions by HS Section and Chapter

Section HS	Chapter HS	Modified tariff fractions (#)	%
XI Textile materials and their manufactures	52 Cotton	5	3.2%
	55 Synthetic or artificial staple fibers	4	2.6%
	58 Special fabrics; tufted textile surfaces; lace; upholstery; trimmings; embroidery	4	2.6%
	60 Knitted fabrics	4	2.6%
	61 Garments and accessories (accessories), knitted or crocheted	57	36.8%
	62 Articles of clothing and clothing accessories, except knitted or crocheted	64	41.3%
	63 Other made-up textile articles; games; clothing and rags	16	10.3%
XX Miscellaneous goods and products	94 Furniture; medical-surgical furniture; bedding and similar articles; lighting fittings not elsewhere specified or included	1	0.6%
	Total	**155**	**100%**

Source: BBVA Research with data from Official Gazette of the Federation (DOF)

Table 2: Number of modified tariff fractions by HS Heading

Heading HS	Modified tariff fractions (#)	%	Heading HS	Modified tariff fractions (#)	%
5208	2	1.3%	6114	2	1.3%
5209	2	1.3%	6115	7	4.5%
5211	1	0.6%	6116	3	1.9%
5512	1	0.6%	6201	3	1.9%
5513	1	0.6%	6202	3	1.9%
5514	1	0.6%	**6203**	**11**	**7.1%**
5515	1	0.6%	**6204**	**12**	**7.7%**
5804	2	1.3%	6205	5	3.2%
5806	2	1.3%	6206	4	2.6%
6004	1	0.6%	6207	2	1.3%
6005	1	0.6%	6208	3	1.9%
6006	2	1.3%	6209	3	1.9%
6101	2	1.3%	6210	4	2.6%
6102	2	1.3%	6211	6	3.9%
6103	3	1.9%	6212	4	2.6%
6104	**11**	**7.1%**	6214	1	0.6%
6105	2	1.3%	6215	2	1.3%
6106	2	1.3%	6217	1	0.6%
6107	4	2.6%	6301	2	1.3%
6108	6	3.9%	6302	8	5.2%
6109	3	1.9%	6303	1	0.6%

6110	3	1.9%	6304	2	1.3%
6111	2	1.3%	6305	2	1.3%
6112	4	2.6%	6307	1	0.6%
6113	1	0.6%	9404	1	0.6%

Source: BBVA Research with data from Official Gazette of the Federation (DOF)

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